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Metro Council

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Metro Government.



# Office of Internal Audit

Louisville Metro  
Police Department

Suburban City Program

# Audit Report

## Louisville Metro Police Department

### Suburban City Program

November 2005

Office of Internal Audit



Louisville Metro  
Police Department

Suburban City Program

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## Transmittal Letter

November 30, 2005

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall  
Louisville, KY 40202

**Re: Review of Louisville Metro Police Department Suburban City Program**

### **Introduction**

We have examined the operating records and procedures of the suburban city program administered by the Louisville Metro Police Department (LMPD). The primary focus of the audit was the operational and fiscal administration of the activity. This included how the LMPD processes, records, and monitors the activity.

Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

## Scope

The Louisville Metro Police Department's suburban city program policies and procedures were reviewed. Interviews of key personnel were conducted. The focus of the review was the administration of the program and the related fees.

Activity reviewed included suburban city program service records and fees assessed in accordance with interlocal agreements. A sample of transactions was reviewed. The sample was chosen from the period July 1, 2004 through June 30, 2005. The sample included fees charged, the recording of services provided and the fee payments received for the period.

The review included assessing whether transactions were processed in compliance with requirements. This included Metro policies, LMPD departmental policies, as well as, applicable State guidelines. The procedures for monitoring the activity were also reviewed. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all non-compliance issues because it was based on selective review of data.

## Opinion

It is our opinion that the overall internal control structure for the administration and processing of the Louisville Metro Police Department suburban city program is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

No major problems were noted in this area. However, some opportunities were noted. Examples of these include the following.

**Program Administration.** While there are documented LMPD Standard Operating Procedures for the overall program, there are no documented processing procedures for the daily administration and management of the suburban city program. This may lead to inconsistencies in processing of activities, inaccurate records and increase the resources required to train new staff.

**Program Costs.** LMPD senior command staff are aware that the current fees charged do not cover total costs. Suburban city program costs are estimated based on the salary and benefits for an average officer. Costs for fuel, vehicle maintenance and administrative overhead are not included in the costs of the program. The goal of the program may not be to break-even. Other factors, such as public safety and community relations may also be considered as benefits.

**Payroll Administration.** Monitoring of payroll transactions for the suburban city program could be improved. The lack of review by the program manager could weaken accountability, along with the completeness and integrity of the information processed.

**Monitoring and Reconciliation.** Better documentation for the review and monitoring of records managed by the program administrator and the LMPD business office would improve the management of the suburban city program. This would help to promote the accuracy of the activity records and the transactions recorded on the Metro financial system.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the LMPD suburban city program activity.

### **Corrective Action Plan**

Representatives from the Louisville Metro Police Department have reviewed the results and are committed to addressing the issues noted. The Louisville Metro Police Department's corrective action plan is included in this report as responses in the Observations and Recommendations section. We will continue to work with LMPD to ensure the actions taken are effective to address the issues noted.

Sincerely,



Michael S. Norman, CIA  
Chief Audit Executive

cc:   Louisville Metro Council Audit Committee  
      Louisville Metro Council Members  
      Deputy Mayors  
      Louisville Metro Police Chief

**Internal Control Rating**



<u>Legend</u>			
<b><u>Criteria</u></b> <b><u>Issues</u></b>	<b>Satisfactory</b> Not likely to impact operations.	<b>Weak</b> Impact on operations likely contained.	<b>Inadequate</b> Impact on operations likely widespread or compounding.
<b><u>Controls</u></b>	<b>Effective.</b>	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b><u>Policy Compliance</u></b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b><u>Image</u></b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b><u>Corrective Action</u></b>	May be necessary.	Prompt.	Immediate.

## **Background**

The mission of LMPD is to deliver professional, effective services, fairly and ethically, at all times, to all people, in order to prevent crime, control crime and enhance the overall quality of life for citizens and visitors. They strive to encourage and promote community involvement on all levels to achieve these ends.

LMPD's patrol division works to reduce crime by interdicting, reporting, and preventing crime, responding to calls for service, and apprehending criminals. These services are provided to the areas geographically located within Louisville-Jefferson County.

In addition to routine police services, LMPD provides services authorized by interlocal agreements with suburban cities. This program provides for focused patrols within the specific areas designated by the contracting suburban city. Services are provided by LMPD officers who are paid overtime to work outside of their normal assigned shifts/duties. The client cities pay an hourly rate of \$38.48 and are invoiced monthly for the services.

The fiscal year 2005 operating budget for the LMPD suburban city program was \$332,200. This was comprised of client city payments for program services and payroll costs for the officers serving in the program.

This was a scheduled audit.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not performed any previous reviews of the Louisville Metro Police Department suburban city program.

### **III. Statement of Auditing Standards**

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.



## **V. Statement of Irregularities, Illegal Acts, and Other Noncompliance**

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

## **VI. Views of Responsible Officials / Action Plan**

An exit conference was held on November 2, 2005. Attending were Lt. Col. Steve Conrad, Major Larry Watkins and Sergeant Alejandro Cabrera representing the Louisville Metro Police Department; Mike Norman and Mark Doran representing the Office of Internal Audit.

The views of Louisville Metro Police Department officials are included as in the Observations and Recommendations section of the report.

## Observations and Recommendations

### Scope.

The Louisville Metro Police Department (LMPD) suburban city program procedures were reviewed through interviews with key personnel. The focus of the review was the program administration for service activity and revenue management. This includes the processing, recording, and monitoring of activity.

A sample of program activity was judgmentally selected from the population of transactions recorded on the Metro financial system for the period July 1, 2004 through June 30, 2005. The review consisted of examining the sample of suburban city program case files and the supporting documentation including 1) interlocal agreements and any related State requirements, 2) citation/activity reports prepared by officers, 3) monthly service reports, 4) accounts receivable invoices, 5) Metro treasury receipts, 6) Metro financial system postings and 7) information recorded in the LMPD business office files.

This information was reviewed to ensure that activity was processed accurately and appropriately. Additionally, analytical data was prepared to help assess the administration and planning of program activities. Our examination would not reveal all non-compliance issues because it was based on selective review of data. The following issues were noted.

### Observations

There were some opportunities noted for improving the Louisville Metro Police administration of the activities associated with the suburban city program. However, the overall internal control structure is satisfactory. The observations are as follows:

- #1 Suburban City Program Administration
- #2 Suburban City Program Payroll Administration
- #3 Monitoring and Reconciliation

Details of these begin on the following page.

## **#1 - Suburban City Program Administration**

The suburban city program is provided to small cities located in Louisville-Jefferson County. Eligible officers from any LMPD division may provide services, but the 8th division command staff manages all program activity. The program administrator is responsible for scheduling the delivery of services, managing records associated with the program and compiling information that is used to prepare billings for client cities. The hourly rate charged for services is determined through an interlocal agreement between LMPD and the client city. The listing of participating cities is included in the report appendix.

- While there are documented LMPD Standard Operating Procedures (SOP), there are no documented processing procedures for the day-to-day administration and management of the suburban city program. The SOP focus on participating officer's duties and responsibilities. There is not a comprehensive manual that presents the complete duties that the program administrator is responsible for or the forms used to record activity (e.g., assignment schedules, shift logs, activity/citation reports, monthly time sheets used to bill client cities, Metro payroll and financial system reports).

Considering the level of detail associated with the routine management of the program, consistent completion of records and adherence to procedures is necessary. The possibility of changes in command staff increases the importance of documented program procedures.

- The program fees are estimated by LMPD based on the salary and benefits for an average officer. Current fees do not cover total costs. LMPD senior command staff are aware of this and increased the hourly rate charged in fiscal 2005. The Louisville Metro financial system was referenced to obtain fiscal year 2005 information for the LMPD suburban city program. Based on the following financial information that is identified specifically for the program, expenditures exceeded revenues resulting in a deficit of \$41,827.

<b>Description (Account)</b>	<b>Fiscal Year 2005 Actual</b>
Total Revenue	\$278,078
Total Expenditures	\$319,905

- The following issues likely contribute significantly to the fact that total program expenditures exceed revenues.
  - The rates charged for services only consider payroll expenditures of officers actually providing the patrol services. LMPD commanders are aware that other costs are not be covered by the program fees (e.g., fuel, vehicle maintenance, administrative overhead). Therefore, the actual program deficit exceeds what is reported on the Metro financial system accounts established for the program.
  - Officers with higher costs (higher pay rate due to more time on the job) may provide the services. This would result in actual costs exceeding estimates. The current suburban city program service rate charged to clients is based on

the cost of the average LMPD police officer with 8 years experience. The hourly rate of \$38.48 is intended to offset the costs of payroll and fringe benefits for the officers providing the services. Actual costs are dependent upon the type of pay and tenure of each individual officer.

Based on information recorded on the Louisville Metro payroll/human resources system for fiscal year 2005, 118 officers provided services charged to the suburban city program. The average hourly rate paid to officers was \$32.20, not including applicable fringe benefits and taxes paid by Louisville Metro. This actual average hourly rate, plus the cost of fringe benefits, exceeds the rate billed.

The goals and objectives of the suburban city program may not necessitate that it actually breaks-even. Other factors, such as public safety and community relations are benefits that may also be considered.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A written internal policies and procedures manual should be developed. This manual should include sufficient detail for the suburban cities program administrator job duties, copies of forms used and the policies followed in the processing of activity. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, training of key personnel will help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically. This will help ensure adherence to applicable guidelines, along with promoting efficiency and effectiveness of program administration.
- ✓ As previously noted, LMPD commanders are aware that other factors, such as public safety and community relations, may be deemed to be more important than breaking-even financially. These types of non-financial goals and objectives of the program should continue to be considered when determining the feasibility of recovering all costs.
- ✓ Louisville Metro administrators should ensure that financial decisions are based on accurate and complete information. While other concerns may be considered when planning client rates (e.g., public safety, public relations), decisions should be based on information that considers all pertinent facts (e.g., overtime rates, tenure of officers, administrative overhead).
- ✓ Management decisions should consider potential reductions in other areas required to supplement the suburban city program. This will be dependent upon the prioritization of resources, along with management's goals and objectives.

### **Louisville Metro Police Department Corrective Action Plan**

An administrator's handbook has been developed, which outlines the administration and management of the program.

As noted in the report, LMPD command staff is aware that the current fees charged do not cover the total program costs. Prior to merger, agreements related to this program set the hourly charge at \$32.45. In fiscal year 2004/2005, we negotiated an increase in the hourly rate to \$38.48. This is the cost of overtime plus benefits for the average LMPD officer. Since negotiating this increase, we have noticed that more senior officers normally work this program, and we will consider negotiating an additional increase in future years. Regarding vehicle maintenance or administrative costs, we have not traditionally charged this program or other similar programs for these types of expenses. As with the possibility of an hourly rate increase, we will study this situation and make a policy decision about whether or not to pass these costs on to the suburban cities in future years.

## **#2 - Suburban City Program Payroll Administration**

The LMPD suburban city program is intended for officers to work scheduled overtime and provide services in accordance with the interlocal agreements. Any non-probationary police officer or detective is eligible to participate. In order to be considered during the scheduling process, officers must register with the suburban city program administrator. Pay for time worked is processed in accordance with routine LMPD and Louisville Metro payroll procedures.

- Currently, there is not complete monitoring of financial transactions for expenditures. Payroll expenditures for the suburban cities activity is processed by the “home” divisions that the officers are normally assigned to, but posted to the financial accounts established for the program. This does not allow for adequate monitoring of transactions since some financial system charges are not compared with the source documentation (e.g., time reported, overtime request).
- The Louisville Metro payroll system reflects activity for one hundred eighteen officers with charges to the suburban city program during fiscal year 2005. There were some issues noted based on a limited review of activity.
  - In one case, service does not appear to have been provided by an employee in an eligible job description. According to the Louisville Metro payroll/human resources system, the employee held the rank of Sergeant during the service period. This rank is considered command staff and is not eligible to provide program services.
  - Based on Louisville Metro payroll procedures and the fact that this is an overtime program, it would be expected that hourly salary expenses would be charged to specific payroll earn codes for overtime and overtime incentive pay (OVA and SPI). In some cases, it appears program expenditures were charged to other payroll earn codes, such as regular and vacation pay. Further review was not performed to conclusively determine the appropriateness of these transactions, but they could be indicative of inaccurate payroll charges.

Since a detailed review was not performed of the entire payroll process, an assessment of the overall LMPD payroll procedures was not made. The comments above are only expressed with consideration to the management of the suburban city program activity.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ An adequate monitoring system should be in place to ensure employee payroll time is input correctly and expenses are distributed appropriately. Payroll reports (e.g., check register, payroll register, expense distribution report) should be used in the monitoring and reconciliation process.
- ✓ Monitoring of payroll activity should also consider compliance with program guidelines. This includes verifying that participating officers are eligible and that non-program expenditures are not charged to funds intended for program use.

- ✓ Suburban city program staff should contact the Police business office for assistance in obtaining reports to help monitor financial information. This includes existing reports prepared using the Metro payroll and financial systems.
- ✓ While the LMPD business office should be the primary contact to coordinate fiscal activity for Police staff, Metro Finance should be contacted as necessary to help provide consultation and training.

**Louisville Metro Police Department Corrective Action Plan**

We have followed Internal Audit's recommendations and have implemented a process where the program manager reviews the biweekly expense distribution report and reconciles this report against the schedule to ensure that officers are not inappropriately requesting overtime pay. Discrepancies when discovered will be investigated and addressed.

### **#3 - Monitoring and Reconciliation**

Officers providing patrol services in accordance with the suburban city program interlocal agreements maintain records that report activities during each shift assignment. These records are used by the program administrator to compile a monthly summary of total service hours. The total hours are submitted to the LMPD business office in order to prepare monthly billings to client cities based on the established hourly program rate. The individual client billings are submitted to the Louisville Metro Finance Department for processing in accordance with standard accounts receivable policies and procedures.

- A few problems were noted with information recorded on the suburban city program activity reports used to compile and bill client cities. This included one case in which the sum of hours from the shift activity reports did not agree with the total hours reported for the month. This resulted in an apparent undercharge to the client city.
- While the Louisville Metro Police business office should be commended for routinely performing a reconciliation of revenue receipts with the Metro financial system, better documentation of the review should improve its accuracy. A few minor issues were noted during a cursory review of information.
- The Metro documentation associated with billing the client cities is inconsistent. Payment term information noted on the LMPD accounts receivable invoice does not appear to serve any purpose and may be confusing to users. Metro Finance processes billings sent to clients using the LMPD forms as source documents, but does not consider the LMPD date information. Metro Finance's bill states "remit payment immediately".

The interlocal agreements between LMPD and the suburban cities note that payments should be made on a monthly basis, but do not include any specific timeliness requirements for the payment due date versus the billing date.

The types of issues noted above illustrate opportunities to improve the monitoring and reconciliation of suburban city program activity.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ A formal, documented reconciliation process should be practiced. The detailed activity reports should be compared to some type of source documentation (e.g., assignment schedules, shift logs, activity/citation reports, monthly time sheets used to bill client cities, overtime requests, Metro payroll and financial system reports). This helps ensure the transactions were processed as intended and properly recorded. This also helps ensure the accuracy of and strengthen the reliability of the financial statements.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to guidelines. These reviews should be documented and signed by the reviewer.



- ✓ Suburban city program staff should contact the police business office for assistance in obtaining reports to help monitor financial information. This includes routine information prepared using the Metro payroll and financial systems.
- ✓ While the LMPD business office should be the primary contact to coordinate fiscal activity for Police staff, Metro Finance should be contacted as necessary to help provide consultation and training.
- ✓ LMPD and Metro Finance should process suburban city client billings on a monthly basis in accordance with the applicable interlocal agreements.
- ✓ Payment timeliness should be measured based on Metro Finance accounts receivable guidelines. LMPD business office staff should assess the purpose/accuracy of the payment terms recorded on the accounts receivable invoice. The fact that Metro Finance is actually responsible for billing and collecting amounts due from the client should be considered. Since the LMPD accounts receivable invoice ultimately serves as an internal form, it may be clearer for it not to include payment terms.

#### **Louisville Metro Police Department Corrective Action Plan**

As previously noted, the program manager will review and reconcile program records against payroll records to ensure the accuracy and reliability of the financial statements. Routine supervisory review of the program will be completed by the Eighth Division command staff. Our business office will continue to coordinate with Metro Finance accounts receivable on client billings and will serve as the primary contact to coordinate fiscal activity for the program. Finally, as recommended in the report, the payment terms have been removed from the accounts receivable invoices to remove any conflicts with the payment terms provided by Metro Finance.

## Appendix

### **LMPD Suburban City Program Participants (Fiscal Year 2005)**

The population of client cities participating in the LMPD suburban city program was determined by reviewing activity recorded on the Louisville Metro financial system, along with referencing LMPD files.

<b><u>Client City</u></b>
<b>City of Beechwood Village</b>
<b>City of Blue Ridge Manor</b>
<b>City of Douglas Hills</b>
<b>City of Fincastle</b>
<b>City of Glenview</b>
<b>City of Glenview Hills</b>
<b>City of Green Springs</b>
<b>City of Hurstbourne</b>
<b>City of Langdon Place</b>
<b>City of Lyndon</b>
<b>City of Middletown</b>
<b>City of Norbourne Estates</b>
<b>City of Riverwood</b>
<b>City of Windy Hills</b>
<b>City of Worthington Hills</b>